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Diversified Reporting Services, Inc.
(202) 467-9200

P R O C E E D I N G S

MIKE: Welcome, everyone. And thank you for attending our bimonthly Catalyst Funds Portfolio Managers Open House Conference Call.

Before we begin, I'd like to remind everyone today's call may include forward-looking statements. These statements represent the firm's belief regarding future events that by their nature are uncertain and outside of the firm's control.

The firm's actual results and financial condition may differ, sometimes materially from what is indicated in those forward-looking statements.

Please take a moment to review the fund's fact sheet and prospectus. These documents include some important risk considerations that investors should carefully consider, such as investment objectives, risks, charges, and expenses. And they can be reviewed prior to investing in any of the catalyst funds.

This and other information about the funds can be obtained by contacting our internal sales desk at 646-827-2761, on our website, catalystmutualfunds.com or by reaching out to your regional wholesaling representative.

Today we have Ed Walzack and Kimberly Rios on the line, who are the manager and co-manager of the

Catalyst Hedge Futures -- HFXAX is the ticker. And Catalyst Hedge Commodities -- the ticker on that one is CFHAX.

Ed Walzack is senior portfolio manager here at Catalyst Fund and is responsible for the day-to-day management of the hedge futures and hedge commodities funds.

Additionally, Ed has been portfolio manager of the hedge futures predecessor fund, Harbor Assets, since its inception in 2005, until its conversion to an Act 40 mutual fund in September of 2013.

Mr. Walzack has a bachelor's degree in physics and economics from Middlebury College and his master's of business administration from Harvard University's Graduate School of Business.

Kimberly Rios is portfolio manager on the funds, received her bachelor's degree in finance and economics from the University of Arizona and additionally received her CFA designation in 2001.

Kimberly also received her chartered market technician designation in 2014, through the market technicians' association.

As a reminder, all lines will be on mute during the overview. If you do have a question, you can at any time hit * then 5 to place yourself in the queue.

When we get to the Q&A portion of the call, I will announce you by your area code and the prefix of your phone number, and you'll hear your line become unmuted.

And at this time, I will now hand the call over to Ed and Kimberly. Guys, all yours.

MR. WALZACK: Thanks, Mike. And thanks, again, everyone joining the call. I will, as usual, give you an overview and Kimberly will cover the commodity fund. And then we'll leave as much time as possible for questions after the overviews.

So let me start with the S&P fund on the put side of our strategy. There's not very much to talk about, but I know that folks take interest when we see some volatility spikes and some downward movement in equity markets.

So let me remind you of what we do in the put side of our strategy. The put side of the strategy is designed to capture volatility spikes, but we do not even enter positions until the term structure of volatility flattens.

And what that means in layman's terms is that volatility priced into options becomes more even in terms of nearby versus longer dated options expirations.

In other words, when you look at the VIX, that's a 30-day-to-expiration options measure. We look

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at 60-, 90-, 120-, 150-day and so on measures of volatility built into options pricing.

And when those measures start to equalize -- the normal conditions, by the way, when you see a low VIX -- a VIX of 11, 12, 13, 14, 15 -- a low VIX, the normal condition is that when you go out further in duration of options expiration, you get a higher volatility built in.

When you get a spike in the VIX, that curve will flatten and that flat curve is what signals us to begin trading puts.

So the bottom line is for some time now, we have had basically no put positions on in the fund. Volatility has been low. The curve has been in contango, meaning a very cheap VIX and more expensive in longer dated options. That drives us into call option positions above the market.

However, what I wanted to mention today, so first of all, know that we still have basically no put positions on in the fund.

The conditions necessary for us to enter put positions were marginally realized on Friday. They came off on Monday. They are once again, as I speak to you today, back in place in a marginal sense, meaning that curve has begun to flatten.

It's come into a level of flatness. We look at

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actual quantitative measures of the slope of the curve. And by those measures, we are now marginally able to put on put positions.

I can tell you that from a discretionary point of view we have chosen not to do that. I'll get to our call positions in a moment. We're still concentrating on taking unrealized gains out of our call positions.

So although we have analytically, quantitatively a marginal green light to enter put positions, we've chosen not to do that.

We have an options expiration coming up on Friday, another one at the end of September. So we will wait until that put position both gets a little more ideal, or the put signal from our volatility analytics gets more ideal. As I said, it's marginal now. It's in our range. But certainly, the curve is not flat yet. It's almost flat so to speak.

And we're still focusing our efforts on managing our call positions. So let me talk about that. So two weeks ago for those of you who were not on the call, I mentioned that the good news was that we had significant positions on in options expirations all the way out through the middle of October, and that the market had cooperated by entering the sweet spot of those call option positions.

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And that resulted in a nice runup in the fund's NAV over the last four, to six, to eight weeks. And I mentioned in the last call that our biggest downside risk was the fact that we had significant unrealized gains on the books that, in the event of sudden downturn, some -- or some significant portion, a material portion of those gains might evaporate in the market downturn.

Let me describe -- because that's exactly what we saw on Friday, by the way. But let me describe a little bit more about how that occurs.

Those of you who are familiar with the strategy know that what we do on the call side, we like call options from a risk-return standpoint. The example I like to use is you buy a stock at 50 bucks. It goes down to $40, you lose $10. Maybe you can buy a call option with a $50 strike for $2.

You pay $2 for your call option, and the stock goes to $40, you're going to lose $2 instead of $10.

So what we do is we take that and say, we don't even want to lose $2. So we sell other call options above the ones that we buy. So we might sell -- we might buy a call option for $2 and sell two of them above the market for a dollar apiece. Net-net, we have no capital at risk. If the market tanks, then we're going to break even.

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That's how we start positions in the fund. What happens is if the market moves according to the way we'd like it to move, then we gradually built up profit in those positions.

So now the call option we paid $2 for might be worth $4, and because the ones we sold are further away from the money, they might be worth a dollar and a half. So the net of that position is all of a sudden, we're looking at a net long option premium of a dollar on each of those positions.

And what that means is as the fund generates profits, we generally hold these positions into expiration because that's where they have their maximum profit.

But like, any portfolio managers, we have the decision points around when to take partial profits. Again, if you were a stock picker in your portfolio, you might buy a stock at $50 and say, I've got a 12-month price target on this thing at $70.

Next thing you know in a month it's up to $60. So you look at it and you say, well, my price -- my analytics still tell me I can get to $70 with this stock, but I'm at $60. Do I take some off the table? How much do it take off the table? Do I leave the whole thing in place because I'm confident we're going to $70?

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We face those same decisions in our options positions when we have profits, unrealized gains, knowing that in that stock example, if the market turns south, your $60, $10 unrealized gain may go back to zero or even worse.

In our case, we can only go back to zero. That's the way we structure the positions. But we have the same -- the same decisions to make around when to take partial profits, how much to take, how many positions to take off, et cetera.

We have the added decision factor of the fact that options are wasting assets, meaning in the stock example, you can hold the stock forever if you like. With options, they have an expiration date. So we have that clock ticking standpoint, as well, to take into consideration.

So the net of all this stuff means that when I talked to you two weeks ago, we were sitting on about 35 cents roughly -- 35 to 40 -- somewhere in that neighborhood of NAV in the fund in unrealized gains. And I think I mentioned to you that our main focus was to begin to take some of that off the table, trying to do so in a way that still preserves some of our upside, but protected some of that gain.

So I can tell you we were about 50 percent

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successful. And actually, we executed the plan that we put in place, and that means that we took about half of those profits off the table.

If you check your NAV history, we are -- interesting enough -- as of last night's close, we are sitting at the exact NAV in the fund as we were when I spoke to you two weeks ago.

And during that time, two weeks ago, we had somewhere between 35 and 40 cents of fund NAV in unrealized gains.

Coming into today that number was about half, somewhere in the 17 cents -- 17, 18 cents of NAV was at risk from unrealized gains evaporating.

Another way to give you the feel for how the portfolio behaves, as I said, we start out by doing call spreads that we don't pay any money for.

Then we accumulate unrealized gains. What that does is it turns the entire fund portfolio into a call option.

So when I say we're sitting with an unrealized gain of 35 or 40 cents, that's as though we took the entire fund portfolio and bought S&P call options and spent about 35 or 40 cents of the fund's NAV.

So we're sitting here with a call option. We can't go below zero, but we can lose 35 or 40 cents if

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the market tanks.

So since that time fortunately with a flat NAV, we've been able to take about half of that off the table. We're continuing to do so today and continue on into the subsequent expiration periods.

But that gives you a sense for where the portfolio is now. It really is a long call option, and we're -- according with our strategy and according with our PM discretion, we're taking those profits off the table at a rate that is -- again, consistent with our judgement about balancing the risk and the reward.

But what you saw in terms of the fund's decline on Friday was a chunk of those unrealized gains evaporating. It's an important point to understand that the fund was down I think 20 cents on some of the share classes on Friday. S&P was down about 55 points. If the S&P was down 500 points, the fund would have probably lost another nickel or dime.

So it's not a scenario where we are long the market and exposed to downside risk. That's not what we do. What you see in a scenario like that is some unrealized gains that we are unable -- or elected not to take off the table all at once evaporating in a sudden market decline.

And similarly you saw that -- some of that

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recovery occur yesterday. You'll see a little bit more give-back today if the market stays lower as it appears to be doing so far today.

But again, think of the portfolio now as a single, long call option where certainly if the market declines, the value of that call option will decline. But it can't go below zero.

In our case, zero is currently roughly about 15 to 18 cents lower than yesterday's close. I'll put a slight asterisk to that, by the way. But with the nuances of option pricing, there is a small chance that the whole thing flips negative. But then you have negative call premium above the market. That's not a downside risk. That's just something that -- you know, again, with some of the subtleties of how options get priced and settle and so forth.

But generally speaking, the downside risk over any timeframe from last night's close is somewhere in the neighborhood of 15 to 20 cents. We're working pretty hard to take some of that off the table ongoing over the next days and weeks.

I hope that's not too technical, and it's helpful. I will turn the discussion over to Kimberly and certainly be ready to take questions when she's done in terms of elaborating on that particular update.

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So, Kimberly, go ahead.

MS. RIOS: Thanks, Ed. That might have been a little bit too technical in some aspects, but hopefully that was well followed by everyone.

Year to date for the funds, hedge futures is at 11.32 percent and hedge commodities at 11.38 percent. So neck and neck. It almost feels like a competition between the two funds at this point.

For hedge commodity, we are almost at $40 million for AUM.

For the volatilities, what we're looking at right now is we're seeing that oil is at an elevated level of volatility. Corn is just about in the middle. And gold is still considered at a low volatility area.

Going back to oil, we've had some decent moves but not as extreme as what we saw in August, the beginning of August there.

For corn -- corn in the past month, it is back. Yesterday, it was back trading where it was a month ago, but it had gone down 30 to 40 cents. And so it had a nice bounce off of its bottom.

And then for gold -- gold has been in a pretty tight trading range over the past month, month and a half or so.

The events that we're looking at coming up that

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could affect the markets are the FOMC meeting and then the OPEC meeting at the end of the month.

We are paying attention to the crops, the percent harvested, the quality coming in, and the weather that's going on.

For our ranges in the markets, we have pretty wide ranges For oil, we're looking for October expiration $30 to $53 -- ideal would be about $50.

Gold $1,263 to $1,430, and we'll have a much smoother ride if it can maintain between $1,320 and $1,370. And then for corn $3.04 to $3.50, with an ideal at $3.15.

Right now we're 60 percent invested in gold; 25 percent in oil, and 15 percent in corn. And we have positions in oil and gold that go out in January and corn into December.

Forward-looking statements -- we're looking forward to just slow and steady upward movements through October, as long as there's no large individual movements in any one of the markets.

And then we do have quite a few gold positions for November if something were to happen with the election. But we have positions above and below the market. So if there is some increased volatility, we should benefit from that in November.

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With that, I will give it back to Adam.

MR. WALZACK: And I'll do a quick lateral back to Mike so you can moderate questions that might come in.

MIKE: Certainly. Thanks, guys. Again, folks, if you do have a question, please hit * then 5. Guys, I did get a couple email questions here which I'll start off with while we're waiting for folks to put their hand up in the queue who are on the phone.

The first question that we got emailed in was -- and I'm reading it verbatim -- how long did it take for the Catalyst Hedge Futures Strategy Fund to react to the market conditions of 2008? How long did that shift from a long market to a short market take? And how long would the models take in the shift today if a similar situation arose?

I could repeat any part of that if you need it.

MR. WALZACK: Well, let me answer that question maybe with a little bit of a generic description of how we choose to enter positions.

So 2008, market conditions, my recollection and what I'm trying to recall is when volatility really began to spike and when we first got our flattening of term structure. And I believe that certainly happened as early as January of 2008.

And I recall that in Q4 of 2007, we were doing

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some put trades. Nothing has really changed about the way we apply that strategy.

As I mentioned, we look for a flattening of the curve. If you're following along at home for some strange reason and want to understand what that curve looks like without plotting it as we do, you can look a couple of shorthand ways.

One is the VXV is a 90-day version of the VIX. Remember that the VIX is a 30-day-to-expiration number. A shorthand for that curve being flat is when the VIX and the VXV are equal levels.

Today the VIX is probably about -- still at about a 6 or 7 percent discount to the VXV. So 30-day options are 6 or 7 percent cheaper from a volatility perspective than 90-day.

We love to see those two equal. We start to get in actually at anyplace where the discount is less than 10 percent because the normal discount is as much as 20 or 25 percent.

So we look at when that number gets under 10 percent, we start to look. We do some more in-depth analytics on the entire curve. But again, that's a shorthand for you.

If you don't even want to pay attention to the VXV, the best shorthand is that flattening of the curve

generally occurs with a VIX higher than 20 percent. So it's very likely that that curve if flat when you see a VIX above 20, and that would cause us to jump in.

So the real question is how long do those conditions apply because we scale in -- we scale in more actively now than back in 2008, when the fund was smaller. That's about the biggest change.

When the fund was smaller we might jump in once or twice a week and now we're in once or twice a day. But it's bigger chunks.

So the timeframe is relatively much the same. We would likely come to a full position over the course of a month or so. And then ride that volatility and continue to add and take off positions, much as we do on the call side. Adjust take profits, add new positions, take off old positions into expiration.

It's the same type of rolling adjustment and trading style, it's just that we only do it as long as those volatility conditions stay in place.

And in the history of the market since 2008, we really haven't experienced those types of volatility conditions where that curve stays flat for much longer than six to eight weeks, which is barely long enough for us to get through an options expiration cycle and take profits.

So I guess the short answer to what I'm reading into to that question is that we're not doing anything different today than what we did in 2008. We use the same analytical triggers. We put on the same types of put-spread trades to capture volatility.

The difference is really all about when are those conditions present, and do they stay in place long enough so that were we to repeat a 2008 environment where conditions were in place for the entire year, essentially, we traded in 2008 volatility trades all year long. Had a great year. Those are the homerun trades for us.

Since then we haven't -- in 2011 was the only time we had even a quarter of the year worth of volatility conditions. And during that time we made some pretty good money.

But again, those conditions were appropriate for a put side of our strategy but still nothing compared to the levels of volatility we saw in 2008.

So again, the bottom line is to say we're doing the same things. We do some different things with scaling of trades because of our size, and that just means, as I said, now we're trading a thousand contracts or two thousand contracts a day. And back in the day, we might have traded a hundred contracts in a week.

But relative to the size of the capital, we just the same metrics in terms of positions per unit of capital. We use the same analytics to trigger trades. We use the same adjustment techniques and so forth.

So we're doing the same things and reacting to market conditions. If we see 2008 market conditions again, we would anticipate a very similar trading pattern in the fund, just with zeroes added to the size of the positions.

MIKE: All right, great. Do appreciate the explanation there. I got my first call coming in from area code 919-719. Your line is now open.

UNIDENTIFIED CALLER: Hey, Ed, good afternoon. Just a couple of questions. Number one, does the size of the fund that it's currently at today preclude you from taking gains as quickly as you would like to?

And number two, with today's -- your expectations for today with the market down, would that also erode -- would you be expecting a further erosion of gains going forward with this market move today, like, it was on Friday?

MR. WALZACK: Yeah, let me answer that last part first because the answer is yes. And again, go back to what I said in terms of the fund is now behaving like a long call option.

So imagine on Thursday of last week if you went out and bought a call option on a stock, and let's say you paid $10 for your call option. Well, Friday's decline, I mean, you're happy because you paid $10 for the call option and you know you can't lose more than $10 -- even if the stock you bought, let's say it's Tesla or something -- if the stock loses 50 bucks on a day like Friday, you're only down -- at expiration on that option, you're only down 10 bucks.

However, on Friday, that $10 option probably turned into a $5 option. So you lost some money even though your risk is limited. And that's the way the fund is behaving.

Similarly, market snaps back on Monday, that $5 call option goes back to $7 or $8. And today that $7 or $8 option is going to go back to maybe $5 or thereabouts.

So that's how the portfolio is behaving. Now, we don't own a single call option. So what we have the ability to do is we have multiple long and short call options at different strikes, and we are taking off both long and short options to take the premium value of that position and put it in the bank.

As I said, over the last couple weeks, we went into in raw dollar terms, two weeks ago, we had about $125 million of unrealized gains.

In other words, we had a long call option worth $125 million. During those two weeks, the fund's NAV bounced up and down, but great for comparison purposes, as of yesterday's close, it was exactly what it was when we had $124 million of unrealized long call option premium.

As of last night, we had in the neighborhood of $55 million. So you can see we've made some progress in two weeks taking that off the table.

But we do still have some exposure. We're continuing to work through taking more of that off the table, again, commensurate with our risk-return tradeoff.

So that's the answer to the second part of the question. The first part of the question is size is really not influencing what we do, no matter -- in fact, it actually helps us.

Because when the fund was smaller, we had far fewer positions and far fewer strikes, and far fewer expiration periods. So what that meant was we kind of had -- we were faced with more of an all-or-nothing decision.

In other words, we had more difficulty taking off partial positions because we had a scenario where if we take off anything, we're completely out of that expiration. So it was almost an all-or-nothing decision.

Where now we have so many positions across so many months that we can -- in a very smooth fashion decide that look, let's take $5 million out of October because the way we're positioned there, as we model it and graph it, that's the place to do it.

Let's leave the positions on in end of September because -- again, the way we model it, the way we look at volatility, that's a better place to have it.

We have more levers to pull so that -- I think size is actually an advantage in doing that.

Now, we certainly do have to -- as we talked about the size of the fund execution, we have to be a little more careful about our execution so that we don't come in and step all over the market with all at one time.

But that's a relatively minor factor. I think that's outweighed by the benefit of having more levers to pull and more a diversified across expiration period and strike price portfolio.

UNIDENTIFIED CALLER: Thanks, Ed. So as we approach $4 billion, you're still feeling comfortable with the size of the fund?

MR. WALZACK: Yeah, we are. We certainly have that size discussion much more frequently than we did at $1 billion. and we monitor it very carefully. We have

an ongoing capacity analysis that we did a few months back that we update on a monthly basis.

And it revolves around the constraints that we face, and the constraints we face are execution. In other words, are we still able to trade within the bid-offer spread in the marketplace.

And also capacity in terms of our brokerage facility and the risk that they're willing to take on for some of our short options positions.

So we monitor those two major constraints. We monitor our growth rate. We monitor our selling efforts and our distribution channels. And we're good now, and we have an eye on it.

We take very seriously our fiduciary responsibility around not sacrificing shareholder return for the sake of size.

And I think we're pleased that so far this year, our performance is actually our best year in the last three -- in fact, in the last four is this year. And certainly, we're far bigger this year than we were at any time in those past periods.

So far we're very comfortable, but we are monitoring the size very carefully.

UNIDENTIFIED CALLER: Thank you.

MIKE: All right, thanks very much for those

questions. Once again, folks, if you do have a question, please hit * then 5 and it's * then 5.

I do have one more question that was emailed in while we're waiting for additional questions to come in live on the phone.

The next question I have emailed in here, and I know you've addressed this before, and it circles a little bit around interest rates and what would happen -- or how would you -- do you plan out any interest rate hikes? And how would you react the fund to a 25-basis-point hike or a 50-basis-point hike by the fed?

MR. WALZACK: Sure. So we don't take into account interest rates in terms of the analytics we do enter or exit or adjust positions or any other part of managing the portfolio with a couple exceptions.

One is that the way we manage our portfolio and the nature of options, we -- as I mentioned, we try to offset any option purchases with option sales in terms of the money we spend to minimize that downside to an options contract, meaning it expires.

So we don't want to spend $100 million on options and watch that expire. So when we buy options for $100 million, we sell them somewhere else for $100 million. We try to stay neutral.

What that means is while we have certain

collateral requirements against the short positions that we have in the options market, at any given time, we have the entire fund's portfolio available in cash, with the exception of what's dedicated to collateral requirements, which is generally less than half the portfolio and often les than a third of the portfolio.

So the net of all this is we have a lot of cash that is not used in this traditional sense in terms of purchasing assets. It's not sitting in the form of equity holdings, for example, or other asset holdings.

So we do pay attention to how can we take this cash and earn a safe, secure interest or fixed-income return on that cash to supplement the return that we earn from our strategy.

And so what that means is, and those of you who stay awake late at night studying the pages of the prospectus -- our prospectus allows us to invest in securities of three-year duration or less, and we are generally invested in Treasuries.

We have a reasonably significant -- excess of a billion dollars in short-duration Treasuries. Our duration is somewhere in the low twos -- two and a quarter years, thereabouts.

So rising rates are actually something from that standpoint that will help us. We can layer a little

bit of fixed-income return over the top of our strategy.

But we don't use -- interest rates are, in fact, a contributor to options valuation, but an incredibly minor contributor to options valuations. And we don't really use them in models that we look at.

The other thing about interest rates, of course, is that we've all been trained for many years now to watch the Fed and to watch what they do with interest rates and the equity markets, the S&P, obviously the market we trade in is sensitive to interest rate decisions.

So from that standpoint, again, we're not predictive. We don't sit back and say, wow, if interest rates go higher, equities are going lower, and we're going to take advantage of that by doing X, Y, or Z.

We do, however, pay attention to Fed meetings and to events that we know have the potential to place volatility into the marketplace. So that for example, it's not unusual for us in both funds -- gold is very sensitive, for example, to interest rate decisions.

So that Kimberly and I will look at the economic calendar and say, look, Janet Yellen is speaking on Friday, let's go quiet for Wednesday and Thursday in gold. Let's hold off, maybe, on a couple S&P trades and instead react to however the market reacts when the

interest rate decision is announced, or when a Fed governor speaks.

So we will take into account the knowledge that an event may move the market. We don't attempt to predict exactly how it will move the market. We just know that it is likely a good decision for us to perhaps go quiet and react, rather than do something in advance and wish we hadn't.

So that's really kind of a broad basis of how interest rates affect what we do.

MIKE: All right, great, appreciate that response there, Ed. I do have a couple questions on the live queue here. First question is coming from area code 203-387. Your line is now open.

UNIDENTIFIED CALLER: Thanks, Ed. And thanks for doing these calls on a weekly basis and providing kind of the transparency that you do. It means a lot to us investors.

One quick question, there's been a lot of kind of talk in the media about pension funds getting into kind of the options market. And I think specifically into kind of put-writing strategies.

You know, there's talk about South Carolina and Hawaii getting into this market. And I assume, you know, kind of the search for yield and just -- strategies are

driving this.

What does that mean to you guys? Are you guys seeing higher volumes? What impact does that have on kind of the VIX structure when you have kind of a new level of I guess participation by these entities?

MR. WALZACK: Well, it's interesting that you mention that. I read an article, and I'm struggling now when you brought it up within the last week or two that mentioned exactly that. Now, I don't recall -- it may be the same article that both of us have read.

But the highest level answer to that question is that liquidity is good. So if more people are jumping in and doing anything with options -- buying them, selling them, who knows what -- that's good for us.

Secondarily, it's not surprising to me we've had such a low volatile -- low volatility regime. We've had what many market participants perceive as a Fed put, meaning the Fed won't let the market crash, so it's safe to sell puts below the market.

That's been a philosophical mindset I believe that's been in the marketplace. And it would have seemed I think astonishing to observers five or ten years ago to think that pension plans would go out and write put options.

Because the naked selling of a put option in my

view is one of the riskiest trades on the planet and has a terrible return profile.

You collect a small amount of money and expose yourself to unlimited losses in the event of a correction or bear market.

So from that standpoint, you know, naked put writers, I don't want my pension in that plan. But that's another story.

Liquidity is good. I do think it reflects a prevailing -- and I think, again, just personal opinion not related to how we manage the fund, but personal opinion is an unwarranted sense of complacency about downside risk in the equity markets.

It's not something certainly that we do as a part of our strategy. But it is something that, you know, is reflective of yet another avenue of a chase for yield and a chase for return.

You may very well know, and I hope I won't offend anyone by saying this, but cash-secured put writing is a not uncommon strategy in equity portfolios to -- as the strategy goes to have someone pay you to buy the stock you want to buy anyway at a lower price, meaning you want to buy a stock at 50 bucks, great news. It's a $55 now, so sell a $50 strike put. And if the stock goes down to $50, the worst case is you are

assigned the stock. You own it anyway. You like to own it. Great news.

What people don't understand about that trade is, think about it, if you have a stock you want to own at $50, it's at $55. You sell a put at $50 for two bucks. You get to keep the two bucks. The stock goes to $70, you're sitting there with two bucks in your pocket, instead of the $15 profit if you bought the stock.

Second if the stock goes from $55 down to $30, you own the stock at $50. You just lost 20 bucks offset only by the $2 you received in the premium. So there's almost nothing that can happen about that trade that is a good thing.

So again, I won't go on any longer on the call. It's not the purpose of this call, but that's -- I occasionally give seminars on options.

And the world's worst trade, it's actually a dead-heat tie is a covered call or a cash-secured put. That's just again, personal opinion.

UNIDENTIFIED CALLER: Thank you.

MIKE: All right, thanks very much for the question, do appreciate it. I have another question in the queue here coming from area code 646-827. Your line is now open.

UNIDENTIFIED CALLER: Ed, I wanted to ask you

two things. One, what's the downside risk in the fund right now if things don't work out on harvesting the gains?

And two, under what circumstances would you start putting on puts?

MR. WALZACK: Sure. So the downside now is roughly -- coming in today is roughly 17, 18 cents at NAV, and that's the unrealized value of the calls.

As I said, you know, so we have long and short calls. There's certainly some extreme scenarios by which if the market really crashed and volatility went through the roof, the settlement values on the short calls way above the market might actually put us into a negative call position. And so you might see a little more downside that than.

But there is no actual downside risk with short calls on the market. So that's merely a settlement value. The actual risk is that everything we hold today goes to zero.

And if that happened, we'd be looking at around 17 or 18 cents from last night's NAV settle.

So again, call option -- it's as though we took -- today it's as though we yesterday took 18 cents of NAV and invested in an S&P 500 call option. And that's how it's going to behave over the next month or month and a

half or so.

I'm very confident that we can take -- it becomes more difficult to take that off the table because as it evaporates, there's less to take off the table.

But we can certainly -- we've taken a little bit off the table today. We'll continue to do that as rapidly as we can consistent, again, with our risk-return tradeoff.

But the short answer is the number is 17 or 18 cents from last night's NAV settle.

And you also asked about when we're going to put on our put positions. Again, we use volatility analytics do that. We are actually in range. I looked before the call intraday at our models. We're in the -- the green light is on for us. It wasn't yesterday. It was on Friday.

So you can see we're kind of at the edge of where we start to do that. And again, if you play at home, the simplest way is usually a VIX of 20 will get us there.

Right now the VIX I think is somewhere around 19 -- when I looked earlier today. So we're -- as you could see, we're kind of at the margin right there.

We've elected from a discretionary standpoint - - there's a couple things we do discretionary. We have

all our stuff is driven analytically, but we use discretion in terms of we can refuse an analytical entry signal. We don't refuse any risk exits.

We can refuse by our discretion an analytical entry signal. We did that on Friday. We're going to do it again today because the signal is a marginal one and because we think we're best served now to manage that unrealized gain in the call positions.

But we're right there, and if it gets any better -- meaning if you see a continued slide, we would likely, as early as the end of this week or next week begin pretty aggressively the scaling to put positions.

But again, it's all driven by volatility. When that curve flattens -- the curve usually flattens with a VIX somewhere above 20.

If you want to look at the VXV, it's readily quotable on anybody's quote service. Look at the VIX, look at the VXV. When those two things are equal, you can bet we're putting on put positions.

UNIDENTIFIED CALLER: Ed, how fully invested are you right now?

MR. WALZACK: How fully invested are we right now? As I said on a put side -- we treat our put and call portfolios by the way separately. I mentioned that in the past because they are very different strategies.

So we look at both. We look at our position limits on the call side, our position limits on the put side.

On the put side, we certainly have some positions on there, but it's essentially zero. On the call side, we are -- let me quote you, we have an expiration period on Friday. So I could tell you today that we're 60 percent invested. On Friday, that will drop to about 40 percent. So 40 percent is about the right number in terms of our call positions.

We are -- we entered a few positions. A couple weeks ago, we had nothing going on past the middle of October. We have entered some positions in November and a small amount in December expiration.

But we'll be down at the 40ish percent invested range after expiration on Friday.

UNIDENTIFIED CALLER: Okay, thank you.

MIKE: All right, thank you very much. Do appreciate the question there. And I will call last call for any questions here live.

While we're waiting one of the things I like to reiterate based off what Ed just said there, that's why when you look at the VIX and you look at where Ed really gets in his wheelhouse is when that VIX is over 20 for extended periods of time to build up that position.

Would that be a correct statement, Ed?

MR. WALZACK: Yeah, as I mentioned, you know, typically we can get a pretty good-sized position over the course of three to four weeks.

As long as volatility stays in that neighborhood, that flat curve that we need to put on positions, and as I mentioned, we're at the margin now, meaning on Friday, we had the faint green light and elected to ignore it.

On Monday, we were back out. Monday said, no, don't do puts. Today we're back in. But again, it's the faint green light. We're right at the margin.

So we don't need to take marginal positions now. We've got plenty to do on the call side.

If the market were going to continue to decline over the next day or two or three as I said, we might be right there in a solid put entry position as early as the next day or two.

And if that's the case, then we'd get to work and it would take us probably three to four weeks to build up a sizeable position.

And then we'd need another month -- four to six weeks -- of elevated volatility to being to show some gains from those positions that we entered. That's kind of how it might play out.

MIKE: Right, so initially when you start to see volatility perking up and the fund may sit a little flat, that's more because you're building up those positions, and as that becomes more extended, that's where you really see the benefit in that put side of the strategy.

MR. WALZACK: Correct.

MIKE: And I know that's a question that does come up often when the markets really start going haywire. Hey, the fund was flat. It didn't do anything. But the market is down, it's more because of that build-up period, that few weeks it takes to really establish the positions before you reap the benefits.

MR. WALZACK: Sure, and I can elaborate on that, Mike, because the way we -- I've said in the past, when we talk about being long volatility, we're not using volatility instruments.

So we don't -- the commonsense or the natural way to think about it, wow, if the VIX is sitting at 11, and volatility is historically low, why don't you just grab some long volatility position, and when that spike comes, then you'll make some money.

Two things, we don't trade that way. The way we trade is -- we would actually lose money on a volatility spike if we entered when volatility was low

because of how that volatility curve behaves in what we do.

And we don't take volatility positions in volatility instruments. You could buy a long VIX ETN when the VIX is 11. And I can tell you that if the VIX stays at 11 for a month, you're going to lose a bunch of money. So that's why we don't trade them.

So there's actually only -- there are very limited ways to capitalize on volatility. We like, the one we have. And that says that we'll go long volatility when that curve flattens and we can do it with S&P options, and we can do it in a way that if volatility collapses, we break even instead of losing money or volatility stays flat, we break even rather than losing money by taking a position and then not having a market do what we hope.

MIKE: Right, right, perfect. While we were chatting there, Ed, we did have one more question pop in the queue here, so let me open your line. Area code 860-863, your line is now open.

UNIDENTIFIED CALLER: Hi, Ed. Thanks for the calls again. Back in the fall of 2013, when we first became familiar with your fund, we set up a call with you in our office. And at that time, I asked you about commodities and whether or not you considered investing

in commodities also.

And if I recall correctly, I believe you said, well, you weren't as familiar at that time with commodities, that they were more volatile.

And you gave the impression that it just was a much riskier proposition than your understanding and your knowledge of the S&P 500 futures and all that.

So I guess one of my questions is what changed to make you decide to do the commodities fund?

MR. WALZACK: Sure, well, I'd love to have the court reporter play back that conversation for accuracy. But it does sound like you've got it mostly right.

The commodities space was at the time something that -- basically our argument was, look, we know the S&Ps. We've been trading the S&Ps for a long time. There's really no reason to look to other markets.

We now offer a commodity fund because as we grew the S&P fund -- we got an earlier question about capacity, we've been very conscious about capacity in the market. So we began to look more aggressively for ways to apply the successful options strategies we have to other markets.

So we did a lot of homework, and that's been enabled by bringing Kimberly on board back in 2014. We did a lot of research, a lot of back-testing into the

other markets.

We tested liquidity in the commodities space. We looked at volatility levels -- absolute volatility levels, volatility skews. We did a tremendous amount of homework to identify markets that we felt could -- we could take advantage of using some of our options strategies.

So it was really driven by our original market, by us anticipating that at some point, we are going to be too big a player in the market. We'll have too many assets and looking for opportunities.

We actually looked European equities. We've looked at NASDAQ and other equity markets, options-wise. And we actually discovered in the three markets we trade now -- corn, gold, and oil -- we discovered sufficient liquidity, first of all.

And we also discovered some very interesting volatility conditions which I think Kimberly has talked about.

In the three markets we trade, we've had some great opportunities. The commodity fund has done very well this year by taking advantage of volatility that has occurred sort of alternately in each of those three markets.

So the bottom line is that the growth in the

S&P fund led us to look for alternate markets from a -- really a pure liquidity and the ability to deploy assets.

And our research led us to identify what we thought were good opportunities to apply our strategies.

By the way, although I've not been a very active trader personally in the commodity markets, I actually cut my teeth in grains and softs -- softs are things like cocoa and sugar and orange juice and so on back in the '90s as a commercial manager.

So my greatest level of familiarity is in corn, but I have traded some of the other commodities, as well. It actually led me to the commodity-based S&P futures that we use now instead of S&P equities in the commodity fund.

And not only that, I mean, Kimberly has spent countless hours of research and back-testing and now does a majority of the trading on the commodity side.

So we have we think done a good job of developing that expertise and translating our strategies to the commodity fund. And the results so far look pretty good from our end.

UNIDENTIFIED CALLER: I have one more question I wanted to ask. A couple of times you've mentioned that, you know, you're always worried about capital preservation, and you've mentioned like, an 8 percent

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loss -- if you hit an 8 percent loss at any point in time, you know, I'm just interested in what exactly would happen.
And whether or not that 8 percent also -- I'm assuming it also applies to the commodities fund also?
MR. WALZACK: Yeah, what we generally do is we model our exposure. We stress both portfolios looking out at various price points and volatility changes up and down in -- certainly in the S&Ps and then each of the commodity markets that we trade in with the goal of holding that loss to 8 percent.
And we do that by identifying where -- you know, that's the one predictive thing we do it's on the risk side. We continue to talk about how we react to markets in terms of entering positions and adjusting positions.
We do try to anticipate market moves in terms of the risk presented to the portfolio. And what that amounts to is we do have a hard stop at 8 percent. We would flatten the portfolio roughly at 8 percent.
We chose 8 percent by the way expecting that there may be some slippage in the event that we ever actually had to liquidate the portfolio or even neutralize its exposure to whatever was causing the risk, there might be some slippage in doing that.

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So you might get 8.5 or 9 percent or thereabouts, but 8 percent is the number to try and least keep it to single digits.
The number by the way is reflective of what we feel like we can earn in a year, so that risk metric was originally developed long ago to say, look, we never want to have somebody underwater in this fund for longer than a year.
And so if we can very comfortably in any given year even under not ideal conditions earn an 8 percent return, then we better not have a drawdown of greater than 8 percent.
So it started out in somewhat of an arbitrary way. But with both real-time experience and back-testing, that 8 percent number is a pretty good number. In other words, it doesn't inhibit our -- by controlling to that number, it does not inhibit our potential for returns.
And yet at the same time, it does meet our goal to limit drawdowns in terms of severity and also in terms of duration.
But the bottom line is as we look ahead and stress the portfolio and we identify a condition that is out of bounds, we will hedge that right now.
And so as a result -- so you say, what happens

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if the market moves 10 percent -- whatever market it is -- and if that gives us an uncomfortably large loss, we'll go in and hedge that thing.
Now that 10 percent move might never occur, but if we get even 3 percent in that direction, then automatically we have that additional cushioning.
And in that circumstance, then we'd look again at the model and we'd say, oops, we still have a problem. We'll hedge some more.
So it's a very gradual type of hedging scenario. We've never really had to liquidate the portfolio or to neutralize it because our ongoing hedging techniques -- we use hedging instruments. That's what we trade in. That's what options are really built for.
So our hedging techniques allow us to cushion price movement and we're never in a situation where we have sort of a hard stop loss, and we're sitting just waiting for that9 percent to get trigged and then we get out because we're constantly hedging.
That's the first thing we do every day is to identify risks and tune up our hedges if they're not sufficient.
And that allows us to avoid that hard stop and still maintain our drawdown discipline.
UNIDENTIFIED CALLER: Okay, and that applies to

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both the commodities and the hedged futures?
MR. WALZACK: Yeah, that's correct.
UNIDENTIFIED CALLER: It's the same strategy.
MR. WALZACK: I will tell you the commodity fund presents an additional challenge from the standpoint, it's not a single market.
In other words, we can accumulate all of our positions regardless of expiration month, strike place, et cetera in the S&P fund and model it.
We have to model, obviously, gold separately from oil, separately from corn, so we have some -- a little bit more complex metrics in place than a simple 8 percent if this happens or that happens. It's actually a little bit more complex to do the modeling.
But the goals are the same, and at this point, and we have reason not reason to believe that they won't be as successful.
UNIDENTIFIED CALLER: Okay, thank you very much.
MIKE: Great, appreciate that question. And I know we're approaching the hour here. Ed, I do have one question, sneak in here. So I'll open up for that question here. Area code 512-258, your line is now opened.
UNIDENTIFIED CALLER: Yes, good afternoon.

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Thank you for the call and the wonderful job you're doing running the funds.

Could you just reiterate one more time the ratio of the VXV to the VIX that you need to be in your sweet spot? And the duration that the two instruments stay in that ratio? And thank you very much for -- again.

MR. WALZACK: Sure, sure, you're welcome. Appreciate the question, as well.

So that's not our hard and fast number that we look at. We look at the whole curve, but that's a nice shorthand, and it's an easy way for us to take a look at what that curve is looking like.

So remember the VIX is a 30-day number, the VXV is the 90-day number.

Typically, the VIX is at a discount as much at 20 to 25 percent to the VXV, in terms of what volatility is priced into options.

We start to take a peek at our volatility strategy when that discount gets less than 10 percent. So if the VIX is at 15 and the -- see if I can do this -- it's always dangerous to do math in your head on the telephone, but let's see if I can accomplish that.

Here's a good way to do it. If the VIX is at 13.5 and the VXV is at 15, then the VIX is at a 10

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percent discount. And so that's right at the borderline.

Today, before the call, as I said, I looked and it looked like, about a 7 percent discount or so. So now what that will do is cause us to go look at the entire curve and identify whether we're in the neighborhood where we'd like to place our positions.

Whether it's flat enough there, for example, to put on put positions. In other words, we're generally not dealing -- in fact, we're never entering 30-day expiration options position. There's too much other bad things going on with short-dated options.

So the VIX VXV is a shorthand, but since we're not actually trading those 30-day options, that just gives us a clue that we better go look carefully with our models at the curve and see if it's flat enough somewhere where we'd actually trade, which would be more likely 60- to 75-day options and maybe 120- to 150-day options along that curve.

But that's what would trigger us initially, and that's what I'm recommending as kind of a shorthand for someone that really wants to watch it at home.

Look at the VIX and VXV, and when that discount is less than 10 percent, then you're starting to get a flat curve likely somewhere along the way.

The other real shorthand way that almost never

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happens with the VIX below 20 is happening today. I think as I said the VIX is about 19. The discount is about 7 percent. So you can kind of see how that works. It's getting into range.

We would love --there are times when the VIX-VXV ratio goes the other way. In other words, the VIX is at a premium. The VIX might be at 35 and the VXV is at 30. That's what occurred to an even greater degree during most of 2008, and that's a beautiful thing.

Because the curve is now inverted in what's called backwardation. That's the perfect scenario for our strategy.

So you can kind of see how this works. When we start to get close to flat, the discount is small. Then we start to get interested, we'd love to actually have the shorter dated option be at a premium.

And that's the kind of thing we look at more carefully than just the VIX-VXV. But that's a good number. You can easily see on quote machines.

UNIDENTIFIED CALLER: Okay, maybe just one follow-on to that, and then speak to the -- the duration of time that's necessary while it's in that ratio or in that sweet spot for the --

MR. WALZACK: Oh, sure.

UNIDENTIFIED CALLER: -- the fund to thrive, I

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guess.

MR. WALZACK: Sure. So the duration -- and this applies to anything we're doing -- our options, well, actually we're a little shorter in duration on the put side than on the call side because typically, we're doing put side in terms of a higher volatility environment.

When volatility is high, volatility actually acts on options like a time machine. When volatility is high, options closer to expiration are much more expensive than they would be normally, so to speak.

So in a normal environment, when we're doing call options, we're going fairly far out. We're entering trades 90- to 120-days out.

And that's sort of the cycle for our trades -- 90 to 120 days expiration, and we hope that the market moves in a certain place.

On the put side, it's likely to be more like 60 to 90s days options to expiration, and that's kind of our sweet spot in terms of realizing profits -- is essentially our trading cycle.

And so again, on the put side it may be 60 to 90 days -- and maybe 30 days longer on the call side.

But once again, once we -- that's sort of the minimum. If we have the good fortune to stay in an

elevated volatility environment, what happens is we put on trades in that 60- to 90-day timeframe.

And then as we continue to put on trades, those earlier trades come to expiration where we can make our most money. But at same time, we're putting on others.

And so pretty soon, it's just like our call situation. There was a time a month and a half ago we had positions on six or seven different expiration periods extending across as long as four or five months.

The same thing can happen if we get elevated volatility for long periods of time. We'll continue to roll. We'll put on some, for example, in an October expiration -- October, December expirations, then we'll do November, January. Then we'll do January, March.

And as long as that volatility continues, we can build the portfolio. We can harvest profits from once we put on two months ago. We can put on new positions today and so forth.

So the minimum would be one trading cycle, which is likely to be 60 to 90 days. But we'd love it to go on forever to be honest with you.

UNIDENTIFIED CALLER: Right. Okay, well, best of success. Thanks again.

MR. WALZACK: Thank you.

MIKE: All right, thanks very much for that

question. And we're now at the top of the hour 2:00. I don't have any more questions in the queue. But if you do have a question that comes up here over the course of the next two weeks, you could always contact us here in the internal sales desk. It's 646-8287-2761. Or you could email us at info@catalystmf.com. And we'll get those questions over to Ed and Kimberly and be more than happy to respond to them and answer those questions.

Just as quick note, next call will be two weeks from today on September 27th, and we're aiming the October calls for October 11th and October 25th. And I'm sure your internal or external wholesalers will keep you apprised on those once we finalize up those October calls.

Once again, folks, I do appreciate you taking the time out to listen to Ed and Kimberly here. And, Ed and Kimberly, thank you, as well, for taking the time out. I know it has been pretty busy the past couple days, so I'll let you get back to your thing.

And again, folks, thanks very much, and we'll talk to you in a couple weeks. Enjoy the rest of your day. Thank you.

(End of audio.)

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